INTERNATIONAL UNIVERSITY OF EAST AFRICA
'Learning to Succeed'

FACULTY OF BUSINESS MANAGEMENT

END OF SEMESTER EXAMINATIONS - APRIL 2025

PROGRAMME: MBA
YEAR/SEM: YEAR 2/SEMESTER 1
COURSE CODE: MBA 812
NAME: INTERNATIONAL FINANCE

DATE:
TIME:

INSTRUCTIONS TO CANDIDATES:

SECTION A

SECTION A IS COMPULSORY

Question 1:

CASE STUDY

International trade involves payments and receipts resulting from international transactions. A country earns money when it exports goods to the rest of the world and makes payments when it imports goods from other countries. Hence, international trade gives rise to indebtedness among countries. The balance of payments shows the relationship between a country's payments to other countries and its receipts from them.
The balance of payments is thus a statement of income and expenditure on international account.
However, the balance of payments accounting technique is basically that of simple double entry bookkeeping. Like other accounts, balance of payments accounts could either be a plus or minus. Here, a plus item is called a credit and a minus is called a debit.
It is clear that a balance of payments deficit does not augur well for the economy of a country. As a result, once a deficit occurs in the balance of payments, the government quickly takes a number of measures to rectify the deficit in unit. The components of balance of payments are Current account and Capital account.

Required;
i). What are the causes of balance of payments deficit?
(5 Marks)
ii). Explain the deference between Current account and Capital account (10 Marks)
iii)Under the Balance of payments what is Equilibrium?
(5 Marks)
iv). What are the temporary measures of correcting balance of payments deficit (10 Marks)
v) What are the economic effects brought by A balance of payments surplus to a country and her citizens: (10 Marks)

Question 2:

CASE STUDY

The financial system plays the key role in the economy by stimulating economic growth, influencing economic performance of the actors, affecting economic welfare. This is achieved by financial infrastructure, in which entities with funds allocate those funds to those who have potentially more productive ways to invest those funds. A financial system makes it possible a more efficient transfer of funds.
As one party of the transaction may possess superior information than the other party, it can lead to the information asymmetry problem and inefficient allocation of financial resources. By overcoming the information asymmetry problem, the financial system facilitates balance between those with funds to invest and those needing funds.

According to the structural approach, the financial system of an economy consists of three main components:
What are the Three components in the Economy and their specific role (40 Marks)

SECTION B

ATTEMPT ANY THREE QUESTIONS FROM THIS SECTION

Question 1:

The Traditional Theory of Capital Structure. This theory or approach of capital structure is mix of net income approach and net operating income approach of capital structure. It has three stages which you should understand: Explain the three stages (20Marks)

Question 2:

i) What are the financial intermediaries and their functions? (10Marks)
ii). Explain with Examples what you understand of the term international trade. (10Marks)

Question 3:

i)What are the differences between internal and external debt? (10 Marks)
ii). Discuss the benefits of internal debt. (10 Marks)

Question 4:

i). There are many types of participants in the foreign exchange market:
One of the Participants are the Banks. What are Roles of Central Bank and the Commercial Banks in the International Finance?
(10 Marks)
ii). Explain with examples the difference between Spot and Forward Exchange Rates
(10 Marks)

Question 5:

A financial market is a market where financial instruments are exchanged or traded.
Financial markets provide the following three major economic functions:
i) Price discovery
ii) Liquidity
iii) Reduction of transaction costs
Explain with Examples your Understanding of the above three Major Economic Functions
(20Marks)

Question 6:

Explain with Examples the five major theories of exchange-rate determination: (20Marks)

Question 7:

Explain with Examples how the following three key roles which the Commercial banks play in the international transactions:
A. Operate the payment mechanism
B. Extend credit
C. Help to reduce risk.

Question 8:

Explain the relation between capital, income, money and wealth. (20Marks)

Question 9:

A. What is the Meaning of Capital Flows? (10 Marks)
B. Discuss the role of debt management in Business environment (10 Marks)

Question 10:

Capital Flows is the movement of money for the purpose of investment, trade or business production. Foreign capital involves not only the commercial, financial and economic considerations but also wider concerns such as systemic volatility, national sovereignty, dependency, international hegemony, covert colonial exploitation, and the ultimate resources drain. What are the Major Determinants of Various forms of Foreign Capital Flows (20Marks)

Question 11:

A. What are the disadvantages of the managed floating system? (10 Marks)
B. Explain currency risk management in international operations management. (10 Marks)

Question 12:

A. Discuss the difference between Flexible Exchange rates and Fixed Exchange Rates. (10 Marks)
B. What is the Absolute Advantage of International Trade. (10 Marks)